CHESTERFIELD COUNTY

P.O. Box 40
CHESTERFIELD, VIRGINIA 23832-0040
(804) 748-1211

LANE B. RAMSEY
COUNTY ADMINISTRATOR

October 12, 2001

The Honorable Members of the Board of Supervisors
County of Chesterfield, Virginia

Members of the Board:

We are pleased to submit to you the Comprehensive Annual Financial Report (CAFR) of the County for the fiscal year ended June 30, 2001, as required by the Code of Virginia. This report has been prepared by the Accounting Department in accordance with the standards of financial reporting as prescribed by the Governmental Accounting Standards Board (GASB), the Financial Accounting Standards Board (FASB), and the Auditor of Public Accounts of the Commonwealth of Virginia (APA).

The CAFR was prepared with an emphasis on full disclosure of the financial activities of the County. Responsibility for both the accuracy and the completeness of the contents rests with County management. In addition to accurately portraying the financial position and results of operations of the County, we believe this report presents all of the information necessary for customers, including taxpayers, to comprehend the nature and scope of the County's operations.

Organization of the CAFR

The CAFR is organized in four main sections:

The INTRODUCTORY SECTION provides general information to the reader through the letter of transmittal, Certificate of Achievement for Excellence in Financial Reporting and the County's organization chart.

The FINANCIAL SECTION includes the independent auditors' report, general purpose financial statements, combining and individual fund and account group statements and schedules and supplemental information demonstrating the County's compliance with legal and regulatory requirements.

The STATISTICAL SECTION assists the reader in understanding the County by highlighting trends in selected financial and demographic data during the past ten years.

The COMPLIANCE SECTION includes reports on the audit of the County's Schedule of Expenditures of Federal Awards required by the Single Audit Act of 1984, as amended in 1996, and the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations.*

The Reporting Entity

The financial reporting entity includes all of the funds and account groups of the County, the primary government, as well as all of its component units. Two discretely presented component units, the School Board and the Health Center Commission, are included in the reporting entity because of the County's financial accountability for these organizations; however, these component units are reported in separate columns in the combined financial statements since they are legally separate organizations.

The five School Board members were elected in a general public election in November 1999 and began their four year term of office on January 1, 2000. The School system operates 36 elementary schools, 12 middle schools, 10 high schools and a career development technical center. The County appropriates General Fund revenues to support School Board expenditures because the School Board cannot levy taxes or incur indebtedness under Virginia law. The APA requires local governments to report financial information for School Board component units in a separate column from other discretely presented component units.

County departments provide support for School operations in areas such as vehicle maintenance, data processing, risk management, cash management, purchasing, accounts payable, financial systems, and financial reporting.

The seven Health Center Commission (HCC) members are appointed by the Board of Supervisors (County Board) and operate a high quality long-term care facility. In accordance with the inter-jurisdictional agreement, the County provides operating subsidies to the HCC for unreimbursed costs incurred in providing routine services to indigent patients. The HCC also has a line of credit with the County to assist with cash flow requirements in connection with construction/renovation of the new facility.

The Appomattox River Water Authority, the Capital Region Airport Commission, the Greater Richmond Convention Center Authority, the Greater Richmond Transit Company, the Riverside Regional Jail Authority, and the South Central Wastewater Authority are intergovernmental joint ventures. The Chesterfield Industrial Development Authority is considered a related organization because the County Board appoints all of the members; however, the County Board has no responsibility beyond the appointments. The County is a member of several jointly governed organizations that include the Appomattox Basin Industrial Development Corporation, the Central Virginia Waste Management Authority, the Greater Richmond Partnership, the Richmond Convention and Visitors Bureau, and the Richmond Regional Planning District Commission. Although all of these organizations provide services for the benefit of County citizens, they are excluded from the reporting entity because the County has no ongoing financial accountability for them. The Notes to the Combined Financial Statements provide more information about the County's involvement with each of these organizations.

The County provides a full range of municipal services. Major programs include public safety, health and welfare, parks, recreation and cultural activities and community development. Additionally, the County operates an airport and water and wastewater utility systems.

Economic Condition and Outlook

The Richmond metropolitan area has enjoyed national recognition over the past three years for its attractiveness for business. *Expansion Management* magazine named Richmond among America’s 50 hottest cities for attracting business expansions and relocations. In January 1999, Richmond ranked third and the recognition was the result of the magazine asking 60 of the most prominent site location specialists to rank the nation’s up-and-coming cities in terms of business climate, quality and availability of workers, taxes, incentives, quality of life, as well as the willingness of local government officials to “go the extra mile” to obtain their clients’ business. In January 2001, Richmond ranked eleventh based on the magazine polling over 75 prominent site selection consultants for their choices based on business environment, work force quality, operating costs, incentive programs, worker training programs, and ease of working with local officials. *Employment Review* magazine and *BestJobsUSA.com* named Richmond among the “Top 20 Best Places to Live and Work in America.” *Employment Review* staff researched 300 cities, comparing population, unemployment rates, cost of living and job opportunities as some of the deciding factors and Richmond ranked seventeenth on the list in 2000 and twelfth in 2001. Chesterfield’s well-educated workforce, high quality of life and excellent location relative to the U.S. markets and transportation networks make it very attractive to new business.

Chesterfield recognizes the importance of expanding the business tax base to provide revenues for needed services and has made a commitment to promoting economic development. New economic activity for fiscal year 2001 included both commercial and industrial projects. The Department of Economic Development assisted with existing company expansions and new company locations. New and expanding businesses invested nearly $342.9 million and created 1,741 new jobs. Taxable retail sales during calendar year 2000 increased by 6.6% to $2.6 billion.

Among the new companies choosing the County was Algroup (Alcan) Lawson Mardon and St. Francis Medical Center. Lawson Mardon is constructing a 176,000 square foot facility to provide folding cartons and cigarette packaging for a local manufacturer. Lawson Mardon will create up to 150 jobs and invest $45 million in the new plant. St. Francis is constructing a 200,000 square foot, 130 bed acute care hospital. In addition, there will be an adjacent 100,000 square foot medical office building. St. Francis will create approximately 400 jobs and invest about $70 million in construction costs.

The most significant industry expansions were DuPont's $30 million investment and Maruchan Virginia, Inc.'s $31 million investment in existing manufacturing facilities. DuPont is building two 400,000 square foot buildings to consolidate its Richmond area warehouse operations. Maruchan Virginia, Inc. announced plans to expand its facility. The new space will be for warehousing and the vacated warehouse space transformed into two production lines. Maruchan Virginia, Inc. will create 130 new jobs and invest $31 million.

Office buildings in Chesterfield County account for the majority of space in the southwestern quadrant of the metropolitan Richmond area market. The quadrant's office vacancy rate increased from 8.9% as of June 2000 to 11.5% for June 2001. An additional 198,000 square feet of office space is under construction in the southwestern quadrant.

Chesterfield is fortunate to be able to attract a labor force to fill the quality jobs being created in the County. The amount of commercial, manufacturing, and industrial construction underway as well as commitments to expand or locate in the County signifies that our economic condition should be stable and healthy for future years.

Major Initiatives and Accomplishments

The list below highlights some of the County's major initiatives and achievements for 2001:

Bond Referendum - On November 5, 1996, the citizens voted in favor of a bond referendum for the County to issue $228.4 million in general obligation bonds for capital improvements in four separate categories. The voters authorized the County to issue bonds up to $174.8 million for schools, $34.0 million for public safety, $10.3 million for libraries, and $9.3 million for parks and recreation. The bonds will be issued annually on an ability-to-pay basis over a period of six years and will not require a tax rate increase. In January 2001, the County issued the fifth installment of the debt approved by the referendum that brought the total issued to $205.1 million. The January 2001 issue provided $60.4 million in new proceeds.

Emergency Communications Center – In April 2001, the County opened its new emergency communications center in the Eanes-Pittman Public Safety Training Building. In addition to the move, the emergency communications operations switched to a new 800 megahertz public safety communications network. The new network provides faster and more reliable communications.

Public Transportation – Chesterfield LINK is a public transportation program featuring passenger vans, seating up to 26 passengers, that provide citizens with express routes to and from downtown Richmond, as well as local stops around the County. This pilot program is for two years and is paid for by state funding.

Citizen Satisfaction Survey – The County conducted its second citizen satisfaction survey in the summer of 2001. The 120-question survey was distributed to 10,000 randomly selected citizens in the County and almost 3,000 were returned. Ninety-two percent of County residents responding believed that Chesterfield "offers a good to excellent quality of life".

Fire – During 2001, the Fire Department's average fire and emergency medical services response time to priority 1 calls was 6.65 minutes, a decrease of 2.2% compared to the 2000 average response time of 6.80 minutes. The number of structure fires per 1,000 population was 1.3 in fiscal year 2001, down from 1.4 in 2000. The number of fire deaths per 100,000 population decreased by 53.0% from 2.34 deaths to 1.10 deaths. The Fire Department launched a successful training program to address fighting fires in large buildings, such as warehouses. The department also developed a plan to place thermal imaging equipment on all of its first-out equipment, allowing firefighters to look through smoke filled rooms to locate victims.

Police – During calendar year 2000, the Police Department met its objective of responding to emergency condition calls within 3 minutes with an actual average response time of 2.66 minutes. The number of major crimes in accordance with the National Incident Based Reporting System (NIBRS) was 5,913 per 100,000, which is lower than the previous year of 6,259. The clearance rate for the Selected Crime NIBRS was 45%, which improved from last calendar year's rate of 40%. The Police Department opened its Chester District Station that provides a greater presence and lower response time to citizens in the southern portion of the County. The Police Department implemented a new digital photography mug shot system that will aid in the identification of individuals arrested in the County.

Planning – Commercial development activity decreased slightly compared to the previous year. In fiscal year 2001, the County site plan review team reviewed 458 plans for office, commercial, industrial, and public projects, an 8.8% decrease from fiscal year 2000. The Board of Supervisors adopted the Southern Jefferson Davis Corridor Plan that will promote effective development in the corridor. The Board also adopted major amendments to the County's Subdivision and Sign Ordinances to encourage improved subdivision development and more attractive signs in the County.

Parks and Recreation – The number of park visitors decreased to 3.6 million, a decrease of 8.0% from last fiscal year. The number of individuals enrolled in recreation programs increased from 106,761 in fiscal year 2000 to 130,473 in fiscal year 2001. A couple of major programs for Parks and Recreation include the Fourth of July Celebration and the James River Parade of Lights. The Fourth of July Celebration is an annual event that provides entertainment for the entire family and includes activities such as band performances, children activities, food vendors, and fireworks. The James River Parade of Lights is an annual illuminated boat parade during the December holiday season which spectators view along the James River.

Libraries – The circulation of library materials per capita increased to 12.5, compared to 10.9 in 2000. The Library started a new awareness program to help ease citizen's transition to the Library's online information network system that brings the library catalog and resources to the homes of customers through the use of the internet.

National Association of Counties (NACo) Achievement Awards - Chesterfield County received twenty NACo Achievement Awards for government programs that promote responsible, responsive, and effective government. Chesterfield again received more Achievement Awards than any other locality in Virginia. Some of the programs that received awards include the Citizen Assistance After Response to Emergencies Program which provides needed shelter, food, clothing, and other assistance to citizens after emergencies; the Employee of the Year Program that recognizes all of its nominees as winners and provides each with rewards and gifts; the Retiree Advisory Group, which consists of county retirees and Human Resource Management staff, collects input from retirees and their families concerning the benefit programs offered by the county; Success Through Education and Proactive Policing is a collaborative effort between the Police Department and the Schools to provide curricula on drug and law education; and the Tax Structure Committee gave citizens, business leaders, and association representatives the opportunity to have a voice in the future of tax policy in the County.

"Triple-Triple A" Bond Rating Status – Chesterfield County is one of a few county governments in the nation to have the highest bond rating from the three major bond-rating agencies. In February 2001, the County received a triple AAA bond rating for its general obligation bond issue, reaffirming the County's strong financial standing. The triple AAA bond rating makes Chesterfield County more attractive to businesses and results in lower interest rates when issuing debt.

Prospects for the Future

The Richmond area economy typically fares better than the state and nation overall, however the recession which began in late 2001 will impact the County's revenues in fiscal year 2002 and possibly 2003. The County will experience modest declines in the growth of state sales taxes, transient occupancy taxes, and other major revenues. Economic indicators ranging from retail sales to building permits weakened here during the past 12 months, but they still were strong compared with overall activity in Virginia. Economists predict that the Richmond area is well positioned to ride out the economic downturn by having a well-developed economic base, major construction projects underway, a qualified labor force, and proximity to large metropolitan areas.

The County will continue to focus on quality development and growth that benefit County residents. In addition, County managers will concentrate on creative frameworks and innovation to improve productivity in order to meet growing demands for services with limited resources.

The County uses the Total Quality Improvement (TQI) philosophy to meet its productivity challenges. Since the beginning of our TQI effort in fiscal year 1992, the County remains steadfast in its commitment to continuous improvement. The County won the prestigious U.S. Senate Productivity and Quality Award (SPQA) in 1995 and the Award for Continuing Excellence in 1999. The School Board received the SPQA gold medallion in 2000. Chesterfield County now has the distinction of being the only locality in Virginia where the local government and public school system both have won the SPQA award. During 2001, the County reported results based on the new set of 84 key outcome-based performance measures developed in 2000. This is significant because performance measures in the past have traditionally been more department-specific and now the measures are linked to the County's strategic plan. The County developed its Chesterfield University, a 'corporate university' concept designed to provide learning opportunities that are strategic and results driven for all employees. TQI University was renamed to the School of Quality and Continuous Improvement and was incorporated into Chesterfield University. The School of Quality and Continuous Improvement entered its sixth year of operation and graduated its eleventh class in August 2001. Graduates must complete 71 hours of core TQI competencies.

The County is considered to have the best available location, the Meadowville Technology Park located off I-295, for the next semiconductor chip manufacturing company. In addition to this area, the creation of the Virginia Bio Technology Research Park at Meadowville will allow the County and the research park to jointly market prospects for either site and increase biotechnology sciences in the Richmond area. The Meadowville research park, a satellite location that is only 15 miles from the main Virginia Bio Technology Research Park in downtown Richmond, will have the capacity for approximately 2 million square feet of combined office, laboratory and manufacturing space. Also, the construction of the final leg of the Route 288 corridor through northwestern Chesterfield County to the west side is expected to become one of the region's premier office and light industrial employment centers.

Capital One, a financial services company, announced plans in October 2000 to begin a $700 million expansion in Virginia, including construction of a 1.5 million square foot office campus in the Richmond area for 6,000 employees. The company also wants to double its current Chesterfield County workforce to 2,000 employees. The company has hired 2,400 employees during 2001 and is planning to occupy the first of nine buildings in the office campus in January or February of 2002.

A major regional project for area jurisdictions is the expansion of the Richmond Centre, which will increase this convention facility to almost three times its current size. On January 9, 1998, the County, in conjunction with three other participating jurisdictions (the Counties of Hanover and Henrico, and the City of Richmond) created the Greater Richmond Convention Center Authority (Convention Authority). The Convention Authority was created to acquire, finance, expand, renovate, construct, lease, operate, and maintain the facility and grounds of a visitors and convention center or centers including the current Richmond Centre facility. The primary purpose of the Convention Authority is to finance the expansion of the project and to operate and maintain the facility once construction is complete. The first phase of the expansion opened in the spring of 2001, which included the ballroom, parking deck, central plant, administrative offices, and meeting space. The second phase of the expansion is expected to be complete in November 2002.

The Richmond International Airport expansion project is underway. The Capital Region Airport Commission (Airport Commission), which owns and operates the airport, is a joint venture of the County, City of Richmond, and the Counties of Hanover and Henrico. The expansion includes two new passenger parking decks and an additional rental car parking garage. In addition, the Airport Commission completed negotiations with the federal government and was able to secure funding of $9 million for the replacement of its aging communications tower. Construction on the tower began in August 2001. The Airport Commission also plans to enlarge the terminal to two levels.

The 800 megahertz regional public safety communications network for police and fire operations reached substantial completion in 2001. The Counties of Chesterfield and Henrico are currently operational on the network, with the City of Richmond to become operational on the network by the end of fall 2001. In addition, the City of Colonial Heights will be incorporated into the Chesterfield component of the project so that they will benefit from the network. The County of Hanover will be phasing into the network over the next few years.

Chesterfield County and thirteen other regional jurisdictions participated in renovating the Maggie L. Walker High School in Richmond to house the Governor's School for Government and International Studies. Chesterfield has 200 students in the school and its portion of the renovation totaled $2.3 million. The Governor's School is a unique public school offering a rigorous and accelerated college preparatory program emphasizing government, international studies, science, math, foreign language, and literature. The Governor's School serves talented and gifted students selected from the participating jurisdictions.

Some other regional initiatives include the Greater Richmond Partnership, the Crater Regional Partnership, the Richmond Metropolitan Convention and Visitors Bureau, the Capital Area Workforce Investment Board, and the Capital Region Legislative Caucus. The County's continued involvement with regional initiatives demonstrates its commitment to our strategic goal of being a unifying leader of local government in the region.

Financial Information and Controls

The accounting system of the County and the School Board component unit is dependent upon a strong foundation of internal accounting controls. Broadly defined, internal controls are organizational plans, methods and procedures designed to reasonably safeguard assets, ensure the accuracy and reliability of accounting data and encourage adherence to prescribed managerial policies. Consequently, a great deal of emphasis is placed on the continuing development and monitoring of controls. We believe these internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

Budgets are legally adopted and funds are appropriated at the function level for the County's General Fund, at the major category of expenditures for the School Operating Fund, and at the fund level for the Comprehensive Services Fund. However, an automated budgetary control, purchasing and accounts payable system maintains budgetary control for operating funds at the program and/or department level of expenditure. This is accomplished by the encumbrance of estimated purchase amounts prior to the release of purchase orders to vendors. Year-end open encumbrances, which lapse at year-end, are reported as reservations of fund balance and reappropriated in the succeeding year.

General Fund Operations

The General Fund is used to account for the general operations of the County except for those accounted for in another fund. Revenues and other financing sources for the General Fund totaled $435.5 million in 2001, an increase of 5.9% from 2000. The following is a summary of the various financing sources compared to the preceding year:

General Fund Revenues and Other Financing Sources
(000's Omitted)

Financing Sources	Amount	Percent of total	Increase (decrease) from 2000	Percent increase (decrease) from 2000
General property taxes	$ 211,946	48.66%	$ 1,545	0.7%
Other local taxes	73,099	16.78%	3,349	4.8%
Permits, privilege fees & regulatory licenses	9,096	2.09%	579	6.8%
Use of money & property	5,520	1.27%	577	11.7%
Charges for services	14,751	3.39%	3,200	27.7%
Recovered costs	4,783	1.10%	(1,174)	(19.7%)
From other governments	110,090	25.28%	15,007	15.8%
Other	4,240	0.97%	272	6.9%
Total revenues	433,525	99.54%	23,355	5.7%
Operating transfers	674	0.16%	(392)	(36.8%)
Proceeds from lease purchases	1,222	0.28%	1,222	-
Proceeds from sale of bonds	88	0.02%	88	-
Total revenues and other financing sources	$ 435,509	100.00%	$ 24,273	5.9%

Assessed valuation of taxable real and personal property for 2001 of approximately $19.0 billion represented an increase of 5.7% over the preceding year. Real property assessed valuation increased 6.4% from 2000. Of the real property increase, 31.0% is due to new residential construction, 15.8% is due to new commercial/industrial construction and the remaining 53.2% is due to revaluation and changes of existing properties. Commercial and industrial property values accounted for 22.7% of the total taxable value. Growth of 4.13% in personal property values resulted primarily from an increase in older model vehicles being traded for newer ones and the increase in vehicles moving into the County.

In April 1998, the Virginia General Assembly passed Senate Bill 4005, the Personal Property Tax Relief Act of 1998. The bill provides that the state will directly reimburse the localities, for tax years 1999 and thereafter, a portion of the tangible personal property tax levied on personal use cars, motorcycles, and trucks. In tax year 2001, the reimbursement is 70% of the tax on the first $20,000 of the value of the qualifying vehicle. The state requires that the state reimbursement be recorded as revenue from other governments and not as property taxes. When the state portion is added back to general property taxes, there is an increase of $14.5 million, or 6.2%, over last fiscal year. Including the state reimbursement, the current tax collections were 96.25% of the total tax levy, a slight increase from 2000 current tax collections of 96.23%. Total tax collections as a percent of total tax levy increased from 98.72% in 2000 to 99.11% in 2001. The increase in collection percentages is due mainly to the results from the Treasurer's aggressive collection program to collect delinquent taxes.

Other local taxes increased $3.4 million primarily from increases in the local sales tax, business licenses, and consumer utility taxes. The local sales tax increase of 5.19%, or $1.4 million, is due to increased sales activity in the County. The business license increase of 4.9%, or $0.9 million, is primarily due to a good economy in calendar year 2000 resulting in the increase in the gross receipts of businesses. Gross receipts of a prior year are used to determine license fees of a current year. Consumer utility taxes increased 5.8%, or $0.6 million, primarily due to increased revenue from the electric, gas, and telephone taxes. Increases in motor vehicle licenses and recordation taxes also contributed to the increase in other local taxes.

The 27.7% increase in charges for services resulted primarily from increases of $1.9 million, or 21.6%, in mental health, mental retardation, and substance abuse charges and an increase of $1.3 million, or 350.8%, in parks and recreation. The mental health, mental retardation, and substance abuse increase is primarily due to the draw down of much more Medicaid Waiver revenue as the state allowed the reduction of wait lists of developmentally disabled adults in need of residential care. The parks and recreation increase is due to reclassing buildings and grounds maintenance from the recovered costs revenue financing source in 2000 to the charges for services revenue financing source in 2001.

The 15.8% increase in from other governments resulted primarily from a $13.0 million increase in personal property tax relief state reimbursements and a $1.3 million increase in state sales tax revenue.

Expenditures and other financing uses in the General Fund totaled $427.9 million, an increase of 7.8% from last year. The following table presents expenditures and other financing uses by major function compared to the preceding year:

General Fund Expenditures and Other Financing Uses by Major Function
(000's Omitted)

Financing Uses	Amount	Percent of total	Increase from 2000	Percent increase from 2000
General government	$ 26,866	6.28%	$ 1,596	6.3%
Public safety	84,753	19.81%	5,463	6.9%
Public works	13,037	3.05%	603	4.8%
Health and welfare	42,191	9.86%	3,662	9.5%
Parks, recreation, and cultural	13,242	3.09%	1,332	11.2%
Community development	5,983	1.40%	421	7.6%
Debt service	15,266	3.57%	2,078	15.8%
Other activities	14,612	3.41%	2,926	25.0%
Total expenditures	215,950	50.47%	18,081	9.1%
Operating transfers out	11,701	2.73%	1,829	18.5%
Transfers to component units:				
School Board	199,862	46.71%	11,111	5.9%
Health Center Commission	400	0.09%	-	0.0%
Total expenditures and other financing uses	$ 427,913	100.00%	$ 31,021	7.8%

Public safety increased by 6.9%, or $5.5 million. Police operations increased by $2.4 million primarily as a result of personnel cost increases, six new positions, an increase in grant local match, and workers compensation. Sheriff and Jail operations increased by $1.9 million primarily due to personnel cost increases, the purchase of four new vehicles, and an increase in per diem fees paid to the regional jail for an overall daily population increase. Fire protection operations increased $1.3 million due to personnel cost increases and a full year's operation costs of a new fire station.

Health and Welfare increased by 9.5%, or $3.7 million. Mental Health, Mental Retardation, and Substance Abuse increased $2.2 million, or 12.2%, primarily due to expanded services to additional customers and increased personnel costs to fill new positions to provide the expanded services. Social Services increase of $1.1 million, or 6.8%, is primarily due to increased personnel costs, six new positions, and increased food stamp and other direct benefit payments to customers.

Other activities increased by $2.9 million, or 25.0%. A new telephone system was purchased with payments in 2001 totaling $1.2 million. Economic development incentive payments to businesses can vary widely from year to year based on the County's success in attracting new businesses to locate in the County or encouraging existing businesses to expand. Incentive payments increased by $1.6 million over the prior year amount of only $9,000.

Fund Balance

The total fund balance of the General Fund increased $7.5 million, or 7.3%, to $110.1 million. Reservations of fund balance totaled $42.7 million. Designations of fund balance totaled $19.0 million, including $15.9 million for future expenditures.

The undesignated fund balance, $48.4 million, expressed as a percent of total General Fund expenditures and other financing uses equaled 11.3%. This exceeds the Board of Supervisors' objective for this ratio as it is higher than the target of 7.5%.

Proprietary Funds

The County currently operates three Enterprise Funds and three Internal Service Funds within the primary government. The Enterprise Funds operate primarily from user charges and the Internal Service Funds operate from interfund charges to other units within the County and the School Board component unit on a cost-reimbursement basis. Comparative data on net income for the past two fiscal years is presented in the following table:

	Net Income (Loss)	
Primary Government	**2001**	**2000**
Enterprise Funds		
Airport	$ (313,086)	$ (487,694)
Water	16,852,737	2,238,151
Wastewater	10,455,441	1,811,983
Internal Service Funds		
Vehicle and Communications Maintenance	(80,136)	(782,409)
Risk Management	551,178	(159,937)
Construction Management	24,242	(28,464)

The County elects not to fund depreciation through user charges for the Airport. When depreciation expense is added back to the 2001 net loss of $313,086 the adjusted net income would be $234,434. A private company manages the airport operations.

The Water Fund net income increased $14,614,586 when compared to 2000, primarily due to a required reporting change to report external capital contributions of $13,949,363 as revenue as opposed to contributed capital. The increase is also attributable to increases of $483,372 in interest and dividends and $598,623 in unrealized gains on investments, offset by an expense increase of $908,533 in contractual services primarily due to increased costs to purchase water.

The Wastewater Fund net income increased $8,643,458 when compared to 2000, primarily due to a required reporting change to report external capital contributions of $7,610,969 as revenue as opposed to contributed capital. The increase is also attributable to increases of $495,802 in interest and dividends and $364,022 in unrealized gains on investments.

The Vehicle and Communications Maintenance Fund reported a net loss of $80,136, compared to a net loss of $782,409 in 2000. Charges for services increased 19.4%, or $1,543,319, due to increased labor rates for services and increased billings to customers for fuel due to increased usage. Operating expenses increased 9.85%, or $869,343, primarily due to increases in fuel purchases and higher fuel prices of $591,442 and personnel costs of $182,721.

The Risk Management Fund reported net income of $551,178, compared to a net loss of $159,937 in 2000. The increase in net income of $711,115 primarily is from a $339,492 increase in revenue in conjunction with a decrease of $396,178 in expenses. Charges for services increased by $166,999 due to increases in premiums for coverage and other operating revenue increased $172,493 primarily due to the receipt of a FEMA grant. Contractual services decreased by $130,214 due to loss prevention training obtained last year. The claims expense decrease of $542,956 is due to a decrease in the actuarial valuation claims amount. Insurance expense increased $228,058 due to increased premiums paid on third party insurance.

The Construction Management Fund reported net income of $24,242, compared to a net loss of $28,464 in 2000. The increase in net income of $52,706 primarily is due to a decrease in operating expenses of $46,464. The department moved into rented office space and purchased new furniture and equipment in 2000. In 2001, furniture and equipment purchases and repairs and maintenance costs decreased $46,212.

Fiduciary Funds

In fiscal year 2001, the County accounted for two Nonexpendable Trust Funds, one Pension Trust Fund and five Agency Funds in the fiduciary fund type of the primary government. The Nonexpendable Trust Funds earn interest on cash equivalents and provide funds for a camp for mentally disabled individuals and an annual employee incentive award. Financial activities of the County Supplemental Retirement System Fund, a Pension Trust Fund, include contributions from the County, interest earnings and benefits paid to retired employees. The Agency Funds reflect the receipt and disbursement of funds held by the County as an agent for others.

Component Units

The School Board component unit is comprised of one Special Revenue Fund and one Capital Projects Fund, one Pension Trust Fund, two Expendable Trust Funds, one Agency Fund and the General Fixed Assets and General Long-term Obligations Account Groups. The School system's operations are accounted for in the Special Revenue Fund and the Capital Projects Fund is used for project expenditures. The Pension Trust Fund accounts for pension trust assets and benefits paid to retired employees. The Expendable Trust Funds were established to benefit School programs and recognize student achievements. The Agency Fund, or Student Activity Fund, accounts for funds owned and managed by the students, with guidance provided by School staff, which are used for education, cultural and recreational purposes. The General Fixed Assets Account Group reflects the fixed assets used in School system operations. The General Long-term Obligations Account Group accounts for all long-term debt obligations issued to finance the School system's operations.

The Health Center Commission is accounted for as an Enterprise Fund and reflects the operations of the Lucy Corr Village long term care facility.

Debt Administration

At June 30, 2001, the County's and component units' outstanding debt included the following, in millions:

	County	School Board Component Unit	Health Center Commission Component Unit	Total
General obligation bonds	$ 78.3	$ 269.9	$ -	$ 348.2
State Literary Fund loans	-	8.1	-	8.1
Revenue bonds, net	46.4	-	-	46.4
Mortgage revenue bonds, net	-	-	20.6	20.6
Capital leases	31.0	0.1	-	31.1
Retirement plan obligations	3.8	2.7	-	6.5
Judgments, claims, and compensated absences payable	22.4	10.4	-	32.8
	$ 181.9	$ 291.2	$ 20.6	$ 493.7

Chesterfield County's strong financial standing and sound management practices have resulted in the award of a Aaa bond rating from Moody's Investors Service, a AAA bond rating from Fitch Investors Service, Inc., and a AAA from Standard & Poor's Corporation for general obligation bonds. These ratings are the highest available in municipal investing, placing Chesterfield in the prestigious company of a limited number of County governments nationwide.

The County had two major debt issues in fiscal year 2001. In January 2001, the County issued $13.7 million in certificates of participation to fund technology projects and the expansion and renovation of three county facilities. In February 2001, the County issued $60.4 million of general obligation bonds. The School Board component unit received $47.9 million of the bond proceeds to help fund the expansion of school facilities to meet the demands of a growing student population. The County received $12.5 million of bond proceeds for public safety and parks and recreation projects.

The ratio of net debt to assessed valuation, debt per capita and ratio of debt service costs to total general government expenditures are useful indicators of the County's debt position. The School Board component unit's debt is included since the School Board cannot incur indebtedness. Debt policies are established by the County Board. Data at June 30, 2001 follows:

Net general bonded debt and capital leases	Ratio of net debt to assessed value	Net debt per capita	Ratio of debt service costs to general government expenditures and other financing uses
$387,038,274	2.0%	$1,466	8.2%

The net debt to assessment ratio of 2.0% is within the debt management policy target of 3.0%. The net debt per capita is above the target of $1,200; however, below the ceiling of $1,500. The debt service to general government expenditures and other financing uses ratio is within the policy target of 10.0%.

Cash Management

The County Treasurer has established written policies and procedures to carry out an aggressive cash management program. Through a fully automated system, true zero balances are maintained in the County's checking account. Temporary idle funds are automatically invested overnight in repurchase agreements that are secured or collateralized by governmental securities as required by the Code of Virginia. A lock box service has been implemented to accelerate collections and deposits, resulting in float reduction and increased available funds for investment. Interest bearing money market accounts also are utilized to permit monies collected by various agencies to be deposited directly by them upon receipt, thereby eliminating a loss of potential interest income. The Treasurer determines cash flow needs and funds are invested daily in various maturities to meet cash flow requirements and maximize earnings. Interest and dividend income for the year from funds that the Treasurer invests was $15.8 million. The average yield on investments in 2001 was 5.84%, which exceeded the three-month U.S. Treasury Bill average (5.27%) and the Donoghue's Money Fund average (5.45%) by 57 and 39 basis points, respectively.

The County has invested bond proceeds subject to arbitrage earnings in the Virginia State Non-Arbitrage Program ("SNAP") designed to assist local governments in complying with the arbitrage rebate requirements of the Tax Reform Act of 1986. SNAP provides comprehensive investment management, accounting, and arbitrage rebate calculation services for the proceeds of general obligation and revenue tax-exempt financing of Virginia counties, cities and towns.

Risk Management

Third party coverage is obtained for real and personal property and certain liability risks. Third party property and casualty coverage is maintained for the Fire Department. The County maintains a broad form Public Officials Liability insurance policy to provide catastrophe coverage for individual claims in excess of $2.0 million. The County and School Board are self-insured for automobile exposures. Premiums, self-insured claims and risk management administrative costs are accounted for in the Risk Management Fund.

The Department employs a risk manager and professional adjusters who handle county claims. Claims are fully funded and reserved at ultimate value that are discounted. The Department also employs a safety professional whose focus is loss prevention. Loss prevention activity is based upon management analysis of information and exposure audits.

Independent Audit

This report is prepared to fulfill requirements of the Code of Virginia that an annual audit be conducted by an independent certified public accountant. Pursuant to these requirements, the County engaged KPMG LLP to conduct the audit and their opinion, which is unqualified, is included at the beginning of the Financial Section of this report. The audit complied with the requirements of the Single Audit Act of 1984, as amended in 1996, and the applicable reports are included in the Compliance Section.

Financial Management Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Chesterfield County for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2000. This was the twentieth consecutive year that Chesterfield County has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to GFOA to determine its eligibility for another certificate.

The Budget and Management Department received an award for Distinguished Budget Presentation from GFOA, making Chesterfield one of only a few local governments in the country to receive the award for eighteen consecutive years. By earning this award, Chesterfield again demonstrates the strong leadership that is needed to handle the challenges that face local governments on a daily basis.

The National Institute of Governmental Purchasing (NIGP) of the United States, Canada, Ireland, and England established a new agency accreditation program which recognizes excellence in public purchasing by establishing a body of standards that should be in place for a quality purchasing operation. On October 25, 1999, the NIGP awarded the Chesterfield County Purchasing Department the Outstanding Agency Accreditation Achievement Award for demonstrating excellence in public purchasing. Chesterfield County's Purchasing Department was the eighth agency overall and the first locality or state agency in Virginia to receive this award.

Acknowledgments

We would like to express our appreciation to the staff of the Accounting Department who contributed to the timely preparation of this report. We would also like to thank the members of the Board of Supervisors for your interest and support in planning and conducting the financial operations of the County in a responsible and progressive manner.

Respectfully submitted,

Lane B. Ramsey

Lane B. Ramsey
County Administrator

Mary Lou Lyle

Mary Lou Lyle
Director of Accounting